

**SOUTH CAROLINA
DEPARTMENT OF ADMINISTRATION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

February 21, 2019

Ms. Marcia S. Adams, Executive Director
South Carolina Department of Administration
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Administration (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2018. The Department's management is responsible for the systems, processes and behaviors related to financial activity. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the management of the South Carolina Department of Administration and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor**Agreed - Upon Procedures Related to the South Carolina Department of Administration (D50)****Cash Receipts/Revenues**

1. Compare current year revenues at the fund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations over \$600,000 and 10% in the General Fund and \$2,000,000 and 10% in Earmarked and Federal Funds.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account classification to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
 - Determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations over \$4,000,000 and 10% in Earmarked Funds, \$2,000,000 and 10% in Restricted Funds, and \$1,000,000 and 10% in Federal Funds.
4. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department.
 - The transaction is properly classified in the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
 - Determine that disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.
5. Haphazardly select ten purchasing card transactions from the Comptroller General's listing of purchasing card transactions for fiscal year 2018 and inspect supporting documentation to determine:
 - The cardholder is an authorized user.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

Cash Disbursements/Non-Payroll Expenditures (Continued)

Finding

During our inspection of disbursements, we observed that the Department did not correctly code Commercial Vehicle Repair Program (CVRP) payments between G/L Accounts 5021450001 (Motor Vehicle Repairs - Commercial) and 5031510000 (Motor Vehicle Supplies). For the selected payments, the vendor specifically identified parts and labor separately on the invoice however the charges were not coded accordingly. In addition, we observed multiple payments with an identical vendor and invoice format that were not coded consistently. We reported a similar finding in the 2017 agreed-upon procedures report.

Management's Response

Commercial Vehicle Repair Program (CVRP) invoices are interfaced from Fleetwave into SCEIS and workflow directly to the Comptroller General's Office for approval and payment. Department Finance has reiterated with State Fleet Management that it is of the utmost importance for CVRP staff to make the proper distinction between labor and materials/supplies when coding invoices for payment. Department Finance, IT, Audit, State Fleet Management, and SCEIS will work together to determine if any controls can be built into the Fleetwave system to prevent recurrence.

Payroll

6. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$4,000,000 and 10% in Earmarked Funds, \$2,000,000 and 10% in Restricted Funds, and \$1,000,000 and 10% in Federal Funds.
7. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.
8. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than 10%.
9. Randomly select ten employees and inspect supporting documentation during the fiscal year to:

For Salaried Employees:
 - Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
 - Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.
For Hourly Employees:
 - Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
 - Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.
10. Randomly select ten employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.

Payroll (Continued)

11. Randomly select ten employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

12. Haphazardly select ten journal entries and transfers for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Reporting Packages

13. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
14. In addition to the procedure above, perform the following:
 - Inventory Reporting Package

Determine if reported amounts agree to the South Carolina Enterprise Information System (SCEIS) Yearend Rptg - Inventory report. In addition, determine if the Department's reconciliation of physical inventory to SCEIS was properly completed by agreeing amounts to the SCEIS general ledger and/or Department prepared records.
 - Prepaid Expenses Reporting Package

Determine if amounts agree to the SCEIS Yearend Rptg - Prepaid Expenses report and/or Department prepared records. In addition, haphazardly select five prepaid expenses to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger and invoices.
 - Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Rptg Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Eight haphazardly selected contingent rental payments; (2) The effective dates, current expense and future minimum lease payments of ten haphazardly selected operating leases; and (3) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (One Time Rental Payments, Payments for Supplies and Other Billing Charges and Other Adjustments).

Reporting Packages (Continued)

- Other Receivables Reporting Package

Determine if reported amounts are accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Rptg - Accounts Receivable Current with Customer report and/or Department prepared records. Haphazardly select five receivables for inspection.

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission. Compare the Annual Leave, Holiday Leave, and Compensation Time balances for each employee from the Comptroller General's Office's compensated Absence Report to the June 30, 2018 balances in SCEIS to determine if the Department had any late submissions of leave.

Findings

Prepaid Expenses Reporting Package

During our inspection of this reporting package we determined the amount reported for Prepaid Expenses Current was understated by \$9,649, and the amount reported for Prepaid Expenses Non-Current was understated by \$17,733.

Subsequent Events Questionnaire

The Department answered "No" to question #14, indicating there were no late submissions of leave. However, we compared the leave balances reflected on the Office of the State Comptroller General's (CG) Compensated Absences Report to the SCEIS Cumulative Time Evaluation Report as of June 30, 2018 and identified discrepancies between the balances totaling \$15,570. Therefore, the response to this question should have been "Yes" and a schedule of late submissions should have been submitted to the CG. As a result of the omission, the Department's compensated absences balance was misstated for reporting purposes.

Management's Responses

Prepaid Expenditures – Upon review it was determined that the division requesting the purchase order inadvertently marked a line as "Asset Unknown" for a 3-year service agreement expenditure causing an asset to be created and capitalized at the time of invoice payment. We have reviewed with the asset custodian, the accounts payable staff, and the procurement staff to recognize this in the future and make changes to code appropriately.

Subsequent Events – Department Finance has changed its procedures and will now run the Cumulative Time Evaluation report in ECC and compare any changes to the Comptroller General's Year-End Compensated Absences report.

Governance, Risk and Compliance (GRC) SCEIS Module

15. Select all (four) controls identified through the SCEIS GRC system that were in place during fiscal year 2018 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of the procedures.

Appropriation Act

16. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
17. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

Gas Cards

18. Haphazardly select five gas card transactions and inspect supporting documentation to determine card purchases were allowable and properly documented.

Finding

The Department did not maintain receipts to support the gas card transactions selected for testing. As such we were unable to verify that these transactions were allowable. Additionally, the Department stated that no written policies regarding the use of gas cards had been implemented at the time of our fieldwork.

Management's Response

Department Finance will implement procedures for review of gas receipts. Gas receipts will be returned with the fuel card and reviewed by the division's designated fuel card liaison who will verify the charges for reasonableness and reconcile to the Fuel Card Detail report. Once reviewed and reconciled receipts will not be required to be kept on file.

While procedures were not documented at the time of the Agreed Upon Procedures, agency division fuel card liaisons are required to review the Fuel Card Detail report for accuracy and reasonableness prior to providing approval for payment to the Department Finance Accounts Payable team. No fuel card expenditures were found to be unreasonable. Procedures referenced above will be documented and provided to division fuel card liaisons.

Office Space Rentals

19. Haphazardly select five transactions from General Ledger Account 4470040000 – Rent-State Owned Property and inspect supporting documentation to ensure that payments were accurate and made in accordance with rental agreements.

We found no exceptions as a result of the procedure.

Status of Prior Findings

20. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined that the Department has taken adequate corrective action on each of the findings, except for a similar exception observed regarding account coding of disbursements. See **Cash Disbursements/Non-Payroll Expenditures** for finding.